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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000535

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SUBJECT: AZERBAIJAN: TURKEY NAKHCHIVAN SUMMIT A SUCCESS,
THOUGH NO GAS TRANSIT BREAKTHROUGH

Classified By: Political-Economic Counselor Joan Polaschik, Reasons 1.4
(b,d)

11. (C) SUMMARY. Initial press accounts indicate that Azerbaijani President Aliyev and Turkish Prime Minister Erdogan's June 4 meeting in the Azerbaijani exclave of Nakhchivan was successful, with the two countries announcing that their positions coincide "in all spheres." However, SOCAR Vice President Nasirov told us that there was no progress on the specific issue of transit of Azerbaijani gas through Turkey. Nonetheless, by definition increased cooperation between these two countries on energy issues increases the possibility that the two sides will find a mutually agreeable solution, and there are indications that a solution on Turkish transit will involve Azerbaijan selling Turkey some of the gas expected to be produced from Shah Deniz Phase Two. END SUMMARY.

12. (U) The June 4 meeting between Azerbaijan President Aliyev and Turkish Prime Minister Erdogan came during the latter's first visit to the Azerbaijani exclave of Nakhchivan, which shares a border with Turkey. Initial press accounts indicate the meeting was successful, with a joint statement following the two leaders' one-on-one meeting and a joint press conference. In the press conference, Aliyev and Erdogan stressed their common positions on all major regional issues, with PM Erdogan saying the positions of Azerbaijan and Turkey "coincide in all spheres," and referring to the two countries as "one nation - two states," with Aliyev saying the two countries had "the same interests and the same enemies." Erdogan said the two countries would continue to support each other in international fora such as the UN, the Organization of the Islamic Conference and the Council of Europe. Agreeing, Aliyev added that the next meeting of Turkic-speaking nations would be organized in Baku.

13. (U) During the press conference the two leaders expressed unanimity of opinion on N-K, with President Aliyev referring to Turkey as having demonstrated its support for Azerbaijan's N-K position "during the adoption of the UN resolution on the occupied Azerbaijani territories." PM Erdogan said that resolving N-K within the framework of Azerbaijan's territorial integrity in accordance with international norms was "Turkey's greatest wish." He also thanked Azerbaijan for its support to Turkey on the Northern Cyprus issue.

14. (U) Economic issues played a large role in the meeting, especially energy and transportation. PM Erdogan pointed out that Turkey has invested approximately USD 5.5 in Azerbaijan's non-oil sector, that the trade turnover between the two countries is USD 1.2 billion, with the goal of increasing this number to USD 3 billion within two years. In terms of large projects, the two leaders discussed

cooperation on the Kars-Nakhchivan railway line and regular Nakhchivan-Istanbul air flights. After the one-on-one meeting between the two leaders, the two countries' Energy and Transportation Ministers and supporting staff met.

15. (U) On energy, Aliyev announced that no cooperation within the region was possible without the two countries' participation, and that Turkey will deliver natural gas to Nakhchivan via the Baku-Tbilisi-Erzurum gas pipeline. Erdogan said that:

"Turkey is a transit country. At the same time, Turkey will use the Baku-Tbilisi-Erzurum gas pipeline project to meet its own needs. Energy ministers have received relevant instructions on this matter. The amount of gas that will be delivered to Turkey has yet to be defined. We also discussed the Nabucco (gas pipeline) project. Within the existing capacity, it's planned that natural gas will also be delivered through Nabucco."

16. (C) The specific issue of Azerbaijani gas transit through Turkey was not mentioned in public accounts of the meeting. However, in June 5 conversation on the fringes of the Caspian Oil and Gas Conference, SOCAR Vice-President for Marketing Elshad Nasirov, one of President Aliyev's close advisors on energy issues, told Emboff that the Turkish gas transit issue was not broached, much less solved, when the two leaders met.

17. (C) COMMENT: According to Azerbaijan, Turkish gas transit has to be solved for SOCAR to finalize sales and purchase

BAKU 00000535 002 OF 002

agreements with whichever of the three competing pipeline projects it chooses (TAP, Nabucco, TGI) to sell Shah Deniz Phase Two (SD2) gas. As such, while it is regrettable that no specific progress was made on this issue during this meeting of the two countries' leaders, that Erdogan referred to Turkey as a 'transit country' (vice 'energy hub'), and that he referred to the Nabucco project as something that would deliver gas to Turkey, are encouraging signs. When Erdogan said that "the amount of gas that will be delivered to Turkey has yet to be defined," he is referring to the GOT desire to buy all of Shah Deniz Phase Two gas (SD2 - approximately 13 billion cubic meters annually, starting approximately in late 2013), or at least a minimum of 8 bcm/a. In conversations with SOCAR Embassy has learned that SOCAR is seeking to sell some SD2 gas to Turkey, but wishes to sell no more than 5 bcm/a, so that there is enough SD2 gas left to sanction at least one pipeline project (although SOCAR still holds out the hope of sanctioning two, or, with Turkmen gas, all three). As such, it seems that the two sides could be moving toward a solution to the Turkish transit issue in which the GOAJ sells some SD2 gas to Turkey at prices that are politically palatable for the GOT (i.e. below Gazprom and Iranian prices), with Turkey allowing the rest to transit Turkey under a fair and transparent tariff regime, without the "15 percent netback" clause that has up until now impeded progress on SD2 gas sales. END COMMENT.

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